Lessons drawn from raising equity financing

by Ben Arabo, CEO Atlantic Petroleum

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CEO Atlantic Petroleum

In December 2013 Faroese independent E&P Company Atlantic Petroleum announced a successful IPO on Oslo Stock Exchange which raised gross proceeds of NOK 150MM to the Company. The main reason for the IPO was the Company's ambition to accelerate growth by pursuing current farm-in opportunities and other exploration opportunities, especially on the Norwegian Continental Shelf.

Bell Ceremony at Oslo Stock Exchange – Atlantic Petroleum listing December 2013. Bente A Landsnes, CEO of Oslo Stock Exchange, Ben Arabo, CEO Atlantic Petroleum, Jonny Hesthammer, MD Atlantic Petroleum Norge AS

ATLANTIC PETROLEUM

Atlantic Petroleum is a Faroese independent exploration and production (E&P) company headquartered in the Faroe Islands and with two highly experienced technical hubs in London and Bergen. The Company presently engages in activities ranging from exploration, through appraisal, to development and production and has partnerships with more than 20 international oil companies. Atlantic Petroleum is unique amongst its peer group of small cap companies in having a broad geographical spread of over 45 licences across UK, Norway, Ireland, Faroes and the Netherlands together with production from three UK fields currently yielding just under 2,000bopd.

The Company currently has production from three fields in the UK sector of the North Sea and a pipeline of development projects coming to fruition in the next few years that will provide steady organic growth in production and cash flow. The portfolio consists of a wide variety of assets including high impact potential exploration assets.

Atlantic Petroleum is currently a small robust and sustainable company, but the ambition is to grow significantly over the next years. The Company has succeeded in growing the reserves base significantly in the recent years.

It was the ambition to accelerate growth by pursuing existing farm-in opportunities and other exploration opportunities that made Atlantic Petroleum set out to strengthen its financial position further and in 2013 decide to enter Norway and to have an IPO on the Oslo Stock Exchange.

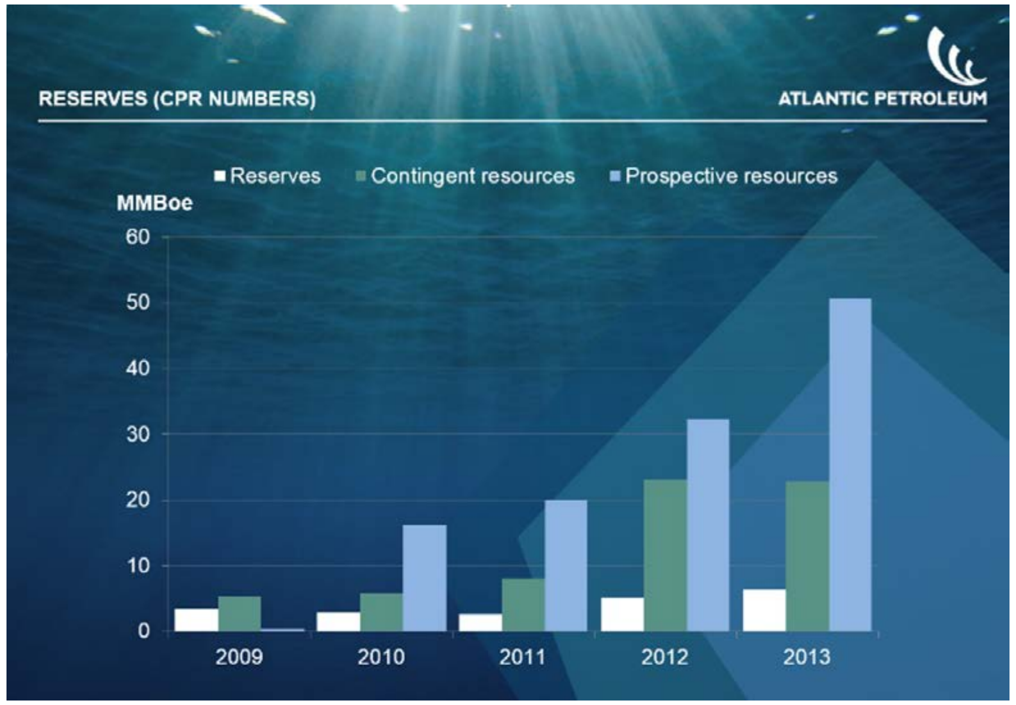
DEBT VS. EQUITY FINANCING

By the end of 2013 Atlantic Petroleum was in a good cash position with a strong – but declining - production and lots of oil in the ground. The reserves base was the Company's largest ever. In addition to having a large portfolio of high impact exploration projects in the pipeline there were several farm-in and farm-out opportunities where the Company could get high impact exploration opportunities with a low downside exposure. To fully pursue the possibilities to grow Atlantic Petroleum needed a capital infusion. The decision to strengthen the financial position by equity financing rather than taking on debt at that stage was based on the long-term nature of the upcoming projects.

The decision was made to do an IPO on Oslo Børs and de-list from Nasdaq OMX Iceland whilst keeping the Nasdaq OMX listing in Copenhagen. The prime reason for the IPO was the Company's ambition to accelerate growth by pursuing farm-in opportunities and other exploration opportunities, especially on the Norwegian Continental Shelf. Atlantic Petroleum considered the Norwegian Continental Shelf to offer a number of quality high-impact exploration opportunities, and based on the Group's acquisition of Emergy Exploration (now Atlantic Petroleum Norge AS) in late 2012 and establishment of a skilled organisation in Norway, Atlantic Petroleum considered itself to be well-positioned for expanding its Norwegian footprint. Additionally, the net proceeds from the offering would increase the robustness of the Company's balance sheet.

Furthermore Oslo Stock Exchange has a strong E&P focus. Norwegian investors and analysts are more familiar with the E&P business, which should mean more attention for the Company and a possibility of increased liquidity in the stock.

The listing has short term been a partial success. The financial position was strengthened and Atlantic Petroleum is gaining a firm footprint in Norway. The Company attracted a number of new institutional investors, and the number of analysts covering Atlantic Petroleum has increased. However, the liquidity in the stock has failed to increase in the short term. We do believe that the Oslo listing will be a benefit in the longer term, and that when we deliver the market will deliver.



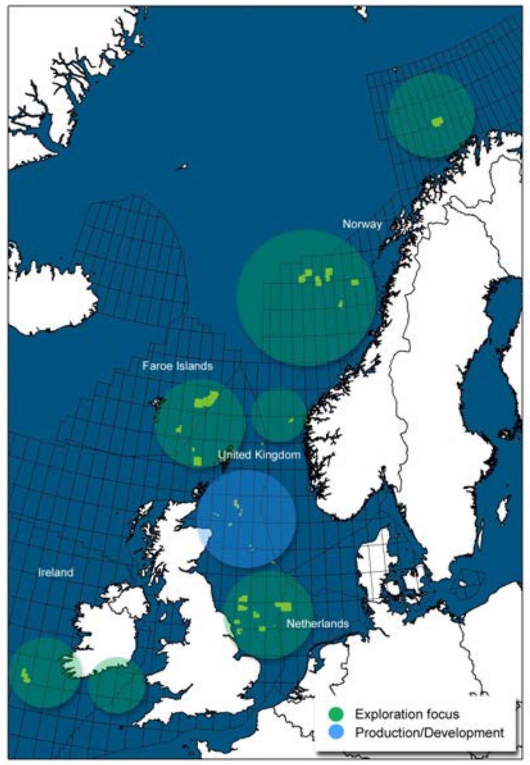
Source: Competent Person's Reports by Fugro Robertson (year 2009-2012) & GCA (year end 2013)

THE WAY FORWARD

Our existing production comes from the Chestnut, Ettrick and Blackbird fields in the UK sector of the North Sea. These fields continue to provide investment opportunities to increase reserves and prolong the field life.

Atlantic Petroleum is involved in several development projects. The first of these is the Orlando field which consists of a subsea tie back to the Ninian Central Platform in the Northern North Sea. First oil is expected in late 2016 at initial net rates of over 2500bopd to Atlantic Petroleum. The second development will be the Kells field which like Orlando is planned to be a subsea tie back to the Ninian Central Platform. First oil is expected in 2017 at net initial rates of just under 2000bopd to Atlantic Petroleum. The third project we are involved with is the Perth field. This field is one of the largest undeveloped accumulations of oil in the UK sector of the North Sea. The exploitation of these reserves has been hampered by the challenging nature of the hydrocarbons and the amount of equipment required to process the fluids. The Perth joint venture group recently entered into a heads of agreement with the Lowlander group (a nearby discovery with similar fluids) to jointly develop the fields. By undertaking a unified approach economies of scale should be realised that will allow the efficient and economic development of these fields.

We are particularly excited by our exploration programme as we exit 2014 and enter 2015. Over the next eighteen months we expect to participate in up to 6 wells. In September of this year we plan to spud a well on the Ivory prospect in the Norwegian Sea. This well, if successful, has the potential to have a massive impact on Atlantic Petroleum. It is located close to the Aasta Hansteen gas condensate development which is due to come onstream in 2017. This development brings infra-structure connecting the Northern Norwegian Sea to the market for the first time (the Polarled pipeline project). Atlantic Petroleum believes there is potential for many more hydrocarbon discoveries in the area surrounding Aasta Hansteen. Over the last two years we have secured positions in 6 licences in the area. We have identified multiple pro-



Atlantic Petroleum portfolio

spects and leads; several of which are supported by DHI (direct hydrocarbon indicators) from the seismic data and positive anomalies on electromagnetic surveys (EM). Similar indications of hydrocarbons can also be seen across the Aasta Hansteen field. The Ivory well will test a prospect that has both a seismic Direct Hydrocarbon Indicator and EM anomaly. If Ivory proves to be successful it will significantly de-risk the other prospects in the area possibly leading to multiple discoveries in our acreage with multi TCF resources.

We also have a very active programme in the UK that is the result of several years' work of building and high grading our portfolio. The largest prospect is the Aurora gas prospect in the Southern North Sea. This is an intra- Carboniferous prospect immediately to the north of the Breagh field. The prospect was first identified on 2D seismic. A 3D seismic survey was acquired in 2013 to improve definition and de-risk the prospect. A prospect like this is very rare in the North Sea these days; it is very large, we estimate multi TCF potential and is located close to shore and export routes.

We are currently drilling the Pegasus West well, also in the Southern North Sea. This is a step out well from the Pegasus discovery made in 2011. It is a modest sized prospect once again located close to infra-structure – the Cavendish field. The well is being designed for later re-entry and early tie back if it is a discovery. Centrica (the operator) estimated gross resources in the Pegasus complex of just under 200 bcf.

The portfolio also includes three further opportunities ready for drilling including two oil prospects (one an appraisal of an oil discovery and the second an exploration well close to existing infra-structure supported by DHIs) and a gas prospect adjacent to a producing field.

Atlantic Petroleum has a sustainable and balanced approach to exploration and production where the near term production funds the short- to mid-term growth through developments and the long term growth opportunities through drilling 3 – 5 exploration wells a year.

How does the E&P sector on and off the NCS utilize the Norwegian Bond Market?

by Per Gunnar Ølstad, Senior Listing Manager and responsible for the energy sector on Oslo Børs

Per Gunnar Ølstad
Senior Listing Manager and responsible for the energy sector on Oslo Børs

The Norwegian corporate bond market has experienced tremendous growth over the past years and has become a significant source of capital for financing of new companies and projects. An increasing number of international E&P companies have raised capital in the Norwegian bond market. Their bonds are listed on Oslo Børs or Nordic ABM and represent attractive credit risk exposure on new E&P companies for investors in the Norwegian capital market.

Background

Norway has long traditions for capital intensive industries e.g. shipping, offshore and oil & gas and our local investment banks have developed high level competency on the sectors and world class placing power among international investors. Together this combination of traditional industries and investment banking has become a solid foundation for the Norwegian corporate bond market, and today Oslo is considered among the world's leading high yield markets, together with London and New York.

New and strict capital requirements were imposed on the banking sector through the Basel III directive in 2010/2011, as a consequence from the collapse of Lehman Brothers in 2008. The aim is to strengthen the balance sheet of the banks and prevent distress and new bankruptcies. Therefore, access to traditional bank funding has diminished, and companies have been forced to other sources of debt capital e.g. the bond market. Simultaneously credit margins have tightened and the pricing of bonds have become increasingly competitive to bank funding. Companies also appreciate increased diversification in sources for debt capital.

On the supply side, investors have experienced relatively low yields from government bonds and volatile returns in the equity markets over the past few years, which have caused an intensified search for high yield in other asset classes e.g. high yield corporate bonds.

Characteristics of the Norwegian bond market

The level of required documentation when issuing a bond and subsequently listing it on Oslo Børs or Nordic ABM is reasonable compared to other markets. The term sheet, loan agreement and listing documentation are relatively standardized and only moderate legal costs are incurred when preparing documentation. This ensures efficient and speedy processes.

Also, all investment banks and corporate law firms in Norway are familiar with the listing requirements. This is advantageous and allows for the advisers and Oslo Børs to facilitate an efficient listing process to the benefit of the Company and their bond investors. The Genel bond issue, mentioned below, was listed on Nordic ABM within less than 2 weeks after issue, and bonds from existing issuers are normally listed even faster.

Nordic ABM is a listing venue for companies not reporting on IFRS or equivalent accounting standards. Neither does the EU prospectus directive apply. Continuing obligations for the companies, trading rules and market surveillance is similar to on a regulated market. Nordic ABM is